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PERSPECTIVES

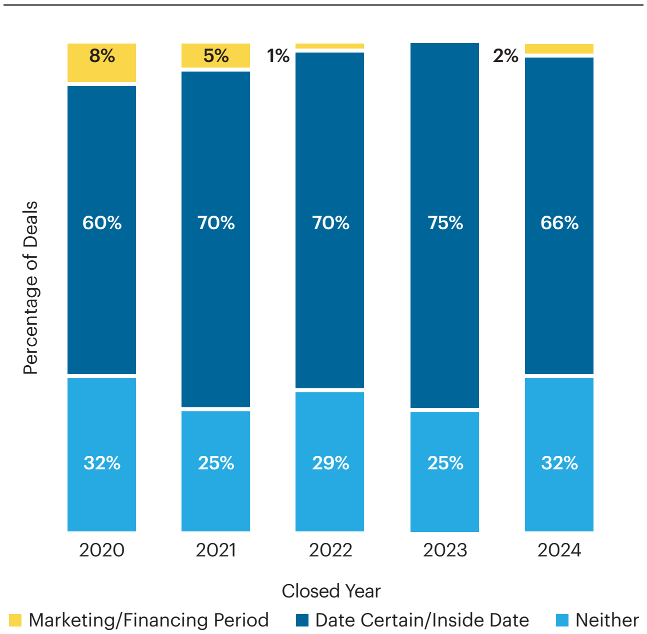
ROPES & GRAY

Private Equity Market Insights

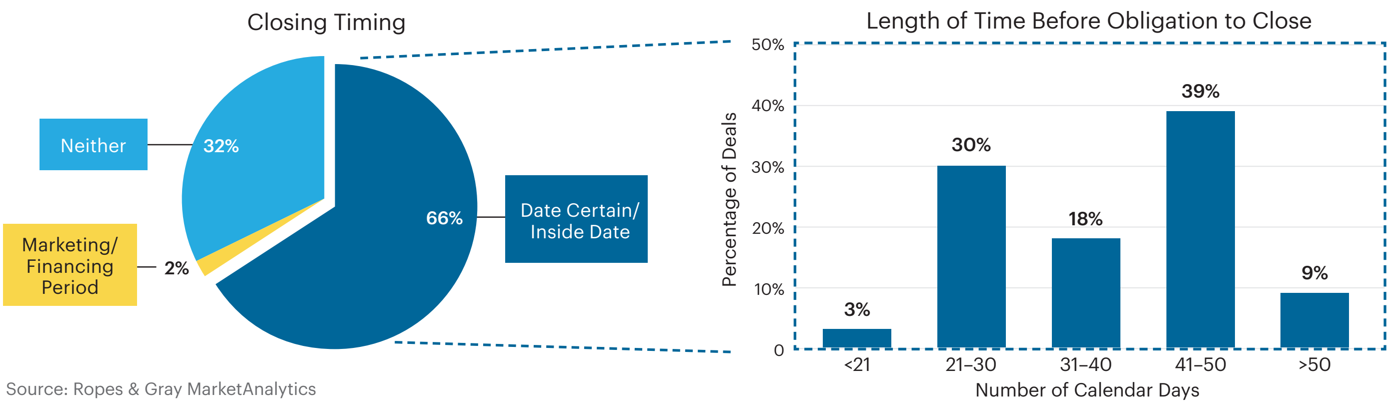
Closing Timing: North America Debt-Financed Private Target M&A Transactions

Although higher interest rates led to a decline in LBOs in 2023, the entry of private credit funds expanded financing opportunities in 2024, and the number of global LBOs rebounded in 2024 to almost the same levels as 2022. This reopening of the financing markets appears to have provided buyers with more confidence in their ability to obtain financing, and the number of deals in our dataset without an "inside date" or other minimum period of time before closing increased in 2024, indicating that buyers were more confident in their ability (especially in competitive auctions) to obtain favorable financing terms in a timely manner. However, for deals that did incorporate an "inside date" concept, the length of time to close varies, and PE sponsors continue to have some flexibility with respect to closing timing. It is also worth noting that although there has been a trend away from the inclusion of the "marketing period" construct in debt-financed M&A transactions in favor of an "inside date" construct, a handful of deals continue to use the "marketing period" construct.

Closing Timing



2024 Deals



Source: Ropes & Gray MarketAnalytics

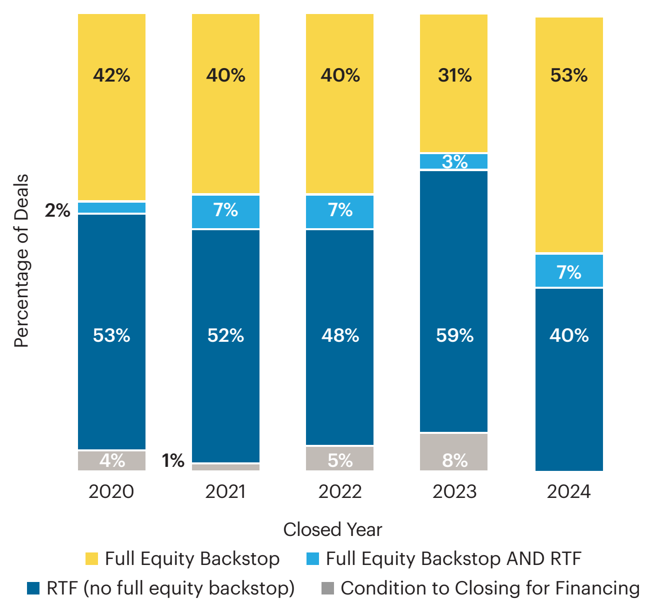
Ropes & Gray maintains our own proprietary database, Ropes & Gray MarketAnalytics, where we collect and organize data from M&A transactions that we work on. This database includes information on more than 2,900 closed M&A transactions, including a mix of mid-cap and large-cap, buy-side and sell-side engagements.

The charts presented depict data on M&A deals from 2020 through 2024. The private equity group's ability to provide granular market and industry insights gives Ropes & Gray clients unsurpassed visibility into the M&A transaction landscape—and keeps our lawyers and our clients one step ahead.

Closing Certainty: North America Sponsor-Backed Private Target M&A Transactions

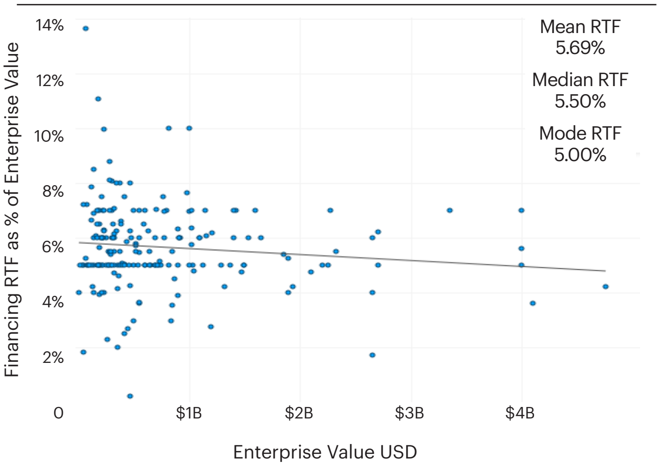
Return of the Full Equity Backstop. The thawing of the financing markets in 2024 made for a more competitive landscape, and PE sponsors increased their use of the "full equity backstop" (as compared to reverse termination fees (RTFs)) to make their bids more attractive. In the more challenging M&A landscape of 2023, the use of the full equity backstop declined in our dataset to the lowest level in five years, and over 60 percent of our 2023 transactions used the RTF construct. However, in transactions that R&G closed in 2024, PE sponsors once again took advantage of the "full equity backstop" structure, and 60 percent of our transactions included that construct, which was the highest percentage that we have ever seen. We also did not see any deals in 2024 that used the even more buyer-favorable financing condition, although that construct (common in past decades) did make a return for a small percentage of deals in 2023. For PE sponsor-backed, debt-financed transactions that do have an RTF structure, the average size of the RTF continues to remain in the 5–6 percent of enterprise value range.

Buyer Closing Certainty



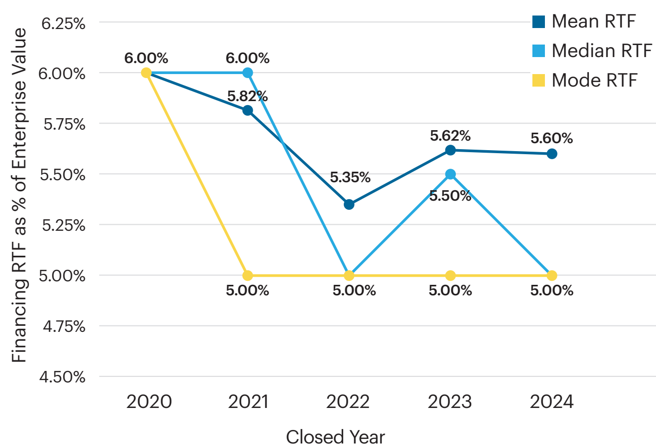
Reverse Termination Fee

Reverse Termination Fee (RTF) as % of Enterprise Value (2020–2024)



Reverse Termination Fee

Mean, Median & Mode RTF % (2020–2024)



Behind the Numbers

All charts and data are derived from an analysis of a selected set of 825 North American M&A transactions completed between January 2020 and December 2024 in the industries below.

~825

Deals

$450+

Billion in transactions